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SUBJECT: AIT CHAIRMAN AND AUSTR STRATFORD HEAR AMCHAM  
SUPPORT FOR THREE AGREEMENTS

11. (SBU) Summary. At an Amcham breakfast in honor of visiting AIT Chairman Ray Burghardt, which was also joined by AIT Director Steve Young and Assistant USTR Tim Stratford, Amcham leadership stated its firm support for bilateral agreements on tax, investment and government procurement. Calling the current Taiwan administration "light on competence," Amcham members complained that Taipei is backsliding on transparency and rule of law. Stratford assured Amcham that the US was committed to the Taiwan relationship. He said he would also encourage Taiwan to reconsider WTO GPA accession, since with China's rising clout, terms are likely to be less favorable in the future. End Summary.

12. (U) The American Chamber of Commerce in Taipei held a June 14 breakfast in honor of AIT Chairman Raymond Burghardt. He was joined by AIT Director Young, as well as by Timothy Stratford, Assistant USTR and Eric Altbach, Deputy Assistant USTR, who were in Taipei to preview the upcoming Trade Investment Framework Agreement (TIFA) talks. Amcham hosts included:

--Bill Bryson, Partner, Jones Day  
--Tai-Chin Tung, Managing Director, Fidelity International  
--Jenny Cheung, Managing Director, Blockbuster BEI Taiwan  
--Thomas McGowan, Legal Consultant, Russin & Vecchi

Also attending from AIT were Hanscom Smith, Econ Chief; Greg Wong, Commercial Section Chief; Mike Cavanaugh, Econ Officer; and Rick Ruzicka, Director of Trade and Commercial Programs, AIT/W.

Backsliding and Political Infighting

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13. (SBU) Chairman Burghardt observed that Amcham's 2007 White Paper, which was formally released a few days ago, was basically the same as last year. Amcham reps agreed, noting that many of the issues have seen little progress. At the political level, while all of the infighting might be entertaining, they said, economic issues, which political leaders are largely ignoring, are of real interest and importance to the people of Taiwan. They went on to complain that the current Taiwan administration was "light on competence" and needed to do economic planning in terms of "years, not days." They further argued that Taiwan has been backsliding on rule of law and transparency. One businessperson stated that the Central Bank was "at it again," by slowing down applications from foreign financial

service firms.

¶4. (SBU) As an example of how it can be difficult to work with Taiwan regulators, Tai-Chin Tung, of Fidelity, expressed frustration about her firm's efforts to move a service center from Hong Kong to Taiwan. She said that these plans were abandoned, however, when Taiwan regulators demanded her firm provide access to all accounts and register all products in Taiwan. The problem, she said, was that Taiwan did not see this investment as an administrative and processing center, which is how Japan, for example, views such investments. Instead Taiwan authorities sought to regulate it as financial service business. When Fidelity raised the case with the Chairman of the Financial Services Commission, he offered to "do a deal." Tung said she would much prefer to follow a clear, transparent set of rules and guidelines. In the end, Fidelity did not move the center to Taiwan.

¶5. (U) Another businessperson said Taiwan produces many "Taiwan-centric regulations and guts international standards." He also complained that it was difficult to bring in talent, especially from China. Furthermore, companies are unable to obtain work permits for individuals who have less than two years experience. This precludes them from bringing recent MBA grads, for example.

¶6. (U) Amcham reps also complained about the large number of products manufactured in China, which are banned in Taiwan. Although Taiwan has claimed these bans are for national security reasons, it is hard to argue that items like potato chips and medical devices would affect national security, they said. Many of these items are produced by the China operations of U.S. firms.

Pessimistic about the Election

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¶7. (SBU) Amcham reps were largely negative about the upcoming presidential election and two candidates. One businessperson acidly noted that this election would be a race of "the two indictees" since DPP candidate Frank Hsieh, like his KMT counterpart Ma Ying-jeou, was being scrutinized for his special allowance expenditures as Mayor of Kaohsiung. Another described Ma as a personal friend, but worried that he had not developed grassroots support and was having trouble finding a strong running mate, which would be crucial to the race. One called Ma "a poll-follower." As the election draws closer, politics trumps economics, complained another businessperson. The officer expressed disappointment that the Legislative Yuan increased the minimum wage by up to 44% for hourly workers effective July 1. This was far too fast and far too large an amount for companies to absorb. Chairman Burghardt made clear that the U.S. would not take sides during what he and everyone at the table expected would be a very close race.

Amcham Wants the Three Agreements, Especially GPA

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¶8. (U) Amcham reps stated that Amcham fully supports the three agreements - on tax, on investment, and on government procurement - which are currently being considered under the TIFA framework. Amcham was most interested in a bilateral government procurement agreement, they said, which would bring U.S. firms back to Taiwan.

¶9. (SBU) Amcham reps also stressed the importance of a strong bilateral investment agreement. Many Amcham members had become concerned that the investment approval process, which had been considered predictable, was in fact not, after the difficulties that many foreign investors were having in obtaining approvals. They raised the case of the Carlyle Group's failed bid for ASE, the world's largest semiconductor packaging and testing firm, and said that a cable television investment was recently approved after a delay of six months. Many of the regulatory commissions, not the bureaucracy, Amcham reps argued, are causing these problems. They claimed that the commissions "operate by press conference, not by regulation."

¶10. (SBU) Amcham also strongly supported a tax agreement, but asserted that such an agreement would likely run into trouble in a future KMT-led government. Any tax agreement would contain a reporting provision, which would be strongly opposed by a number of powerful individuals in Taiwan who hold both Taiwan and U.S. passports. Many of these individuals, whose worldwide income is taxable in the U.S., have no interest in Taiwan sharing tax information with the U.S. and would fight hard against any such agreement, they believed.

#### Stratford: Technical Obstacles, But Progress

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¶11. (SBU) Assistant USTR Stratford stated that the U.S. is committed to working on all three agreements, but noted they have proven more challenging than originally thought. We have made considerable progress on the investment side and some progress on the tax side, he said. From a technical perspective, we now fully appreciate the difficulty of a bilateral GPA as opposed to the multilateral WTO approach. The U.S. Trade Agreement Act, for example, does not provide any mechanism to implement a GPA outside the WTO or an FTA, he noted. In addition, it would also be necessary to extend obligations from AIT/TECRO, which would be the organizations signing any bilateral GPA, to relevant government entities. This may require specific legislation and could open the door for other unwelcome legislative changes.

¶12. (SBU) It would be preferable, Stratford stated, to figure out how to get Taiwan into the WTO multilateral GPA. There would be complications, i.e. with the PRC, but they may be easier to overcome than those surrounding a bilateral GPA. Amcham noted that the GPA is the most important of the three agreements and that a bilateral agreement would give U.S. firms an advantage over EU and Japanese firms. Although Amcham would prefer a bilateral agreement, a multilateral agreement would also be helpful.

¶13. (SBU) The Amcham reps stated Taiwan's main goal was an FTA, so that it preferred bilateral building blocks through the TIFA process to give political cover. Chairman Burghardt pointed out that this was not inconsistent with what the U.S. side had told them. Stratford replied that "we have a

meeting of the minds" on this issue, but that it was also important for Taiwan to understand that China's leverage was growing, and so was its willingness to use it against Taiwan.

Multilateral arrangements now offered to Taiwan, may be difficult to obtain in the future, which argues for Taiwan accepting the WTO GPA deal as it stands.

¶14. (SBU) COMMENT: This meeting occurred as Amcham's leadership was pursuing its annual "Door Knock" in Washington, but USTR's Altbach had sat in on a meeting with the group before leaving Washington for Taipei.

YOUNG